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Treasurer Martin warns economic rebound will take time

SHOW LOW - Arizona Treasurer Dean Martin said rough economic conditions, as well as increased spending, has put the state in a hole that will take some time to get out of.

Martin spoke at a State Senate ad-hoc task force meeting on forest management Aug. 28 at the Show Low Library. He said Arizona is facing hard times due to a combination of factors. "Arizona is in a recession now," he said. "We've been in a recession since the end of last year."

Martin said the economy cycles much like a roller coaster. He likened the drop in a coaster to the crash phase. However, every drop has a bottom and it's after that when recovery begins, much like a coaster climbing the next hill.

A key point in the cycle, Martin said, is something called the first turn, when the fall seems to slow.

"The first turn is when you determine, 'Hey, I'm not in a free fall,'" he said.

Martin said he thinks the first turn in the Arizona economy will come at the end of the year, with it hitting bottom in the end of 2009.

"And I'm told I'm pretty optimistic on this," he said.

Martin said he has given his economic forecast to many groups recently and has talked with nearly everyone on the state level about his findings. While some think he is optimistic, he said others have interpreted his findings as a glass-half-empty outlook. "The governor's called 'Chicken Little' sometimes on this," he said.

Martin said Arizona does lag behind the nation in its economic cycle. He said the national economy would hit bottom at the end of 2008 with zero growth before recovering.

"It's going to take a few years (for Arizona) to get out of this mess," he said.

If people wanted to really know how the economy was doing, Martin jokingly said they should drive by their local Starbucks. He said if people are still buying \$4 cups of coffee, they still have disposable income and the country is only in a mild recession. He said a sign of a depression would be McDonald's restaurants closing because it would mean people couldn't buy a \$0.99 cup of coffee.

To add onto that, Martin said, only one Starbucks in Arizona is closing, in Eloy.

Martin said pointed to numerous reasons for the Arizona recession. A main reason is the increase in state spending. While the state budget was balanced in 2007, Martin said revenues in 2008 dropped and spending increased based on a old economic forecast. He said it led to a nearly \$2 billion shortfall, and the state had to take measures. Revised figures dropped spending by \$300 million and one-time monies were used to fill the rest of the gap.

"Almost all the rainy day fund was taken to cover this," he said.

In 2009, Martin said revenues will increase to \$9 billion, but it will not be enough to cover a \$11.65 billion budget. He said the state is trying to manage this through what he called "accounting gimmicks," such as rolling over payments to schools to the next fiscal year and taking from other accounts to put money into the General Fund.

"If you were to do this in your personal life, you'd go to jail," he said.

Martin forecasts the state budget hitting bottom during the 2010-2011 fiscal year, with recovery beginning at the end of 2012 and the first true budget surplus coming at the end of 2014.

State Sen. Karen Johnson (R-Mesa), a member of the ad-hoc task force, said the reason the budget had become out of control was because the Legislature continued to create new programs to fund despite forecasts of a downturn. With that, it put Arizona in an unenviable position in the country.

"The foresight was not there at all," she said. "Per capita, we have the worst budget deficit in the country."

What made matters worse with the Arizona economy, Martin said, was the popping of the housing bubble. The crash was particularly tough on Arizona because, during the housing boom, the state had experienced a huge surge in home building.

"The guy who parties the hardest will have the biggest hangover," he said. "We estimate 67,000 homes were built in Arizona that didn't have population living in them. Basically, we built a ghost town."

Since the housing bubble burst, Martin said sales of existing single-family homes have dropped to its lowest levels since 1997. Monthly housing permits have also fallen to under 3,000 in the state. During the boom, permit numbers were at 8,000-9,000 in the state. Construction jobs have also declined, as Martin said the growth rate in those jobs were not sustainable. With the demand for housing lower, construction companies could not keep the same number of employees.

"When the bubble burst, it burst pretty quickly," he said. "They just stopped building."

Martin added they don't know if they've seen the bottom of home sales or if they will continue to drop with the new school year starting.

Martin said the Arizona housing market lags behind the national housing market, so it will take longer for the state to recover. Right now, the state is still in a crash phase, which will probably bottom out in the third or fourth quarter of 2009.

"We've got a long ways to go in Arizona before we're through the housing problem," he said.

Also contributing to tough economic times, Martin said, are oil prices. Oil was priced at over \$145 a barrel on July 14 (a record high) but has fallen to \$105.86 as of Monday.

Martin named multiple reasons for the high cost of a barrel of oil. One, he said, is the greater demand for oil from new major consumers such as India and China, with no noticeable increase in global production. Another reason, he said, is the low value of the dollar. Martin said oil is priced in dollars, so as the value of the dollar goes down, the price of oil will go up.

"When the dollar is worth less, it takes more dollars to buy that barrel of oil," he said.

Martin said the main reason for the drop in the dollar's value was the cutting of interest rates the federal government initiated to try to get through the housing crisis.

"You are paying for this housing crisis at the pump," he said.

Martin said the value of the dollar has been increasing as of late, as the Fed has been holding interest rates steady and may even raise them and as European and Asian economies begin to slip. An audience member suggested in order to further increase the value of the dollar and drop oil prices, the Fed should raise interest rates to the point they were at, over 5 percent, before the Bush Administration starting urging cuts. Even with all the troubling reports, Martin said people should not get too discouraged, as Arizona, as well as the nation, has been through this situation before. Steps can be taken to help get through these problems. Starting with housing, he described the issue as a supply-and-demand problem - too many homes and not enough people to live in them. However, he said he is starting to see a drop in amateur realty, as not as many people are buying and selling property just to turn a profit.

"We're going back to the old market where people are buying homes and they're only going to live in them," he said.

To combat the abundance in the supply of homes, Martin said, "We need to attract long-term investors to come in and buy homes and take them off the market."

As the nation is experiencing record numbers of home lenders behind on their mortgage payments (6.25 percent) and home foreclosures (2.5 percent), Martin said the worst thing that can happen is for the government to make house payments. Instead, he said the Fed should urge lenders who came up with the "teaser high-rate" loans to correct them and help people stay in their homes. He said lenders are better off readjusting the mortgage and getting 80 to 90 percent of its original value than "foreclosing the home and getting 50, 60 cents on the dollar."

Johnson agreed, noting that many homeowners want to stay in their homes but the banks are refusing to budge. State Sen. Sylvia Allen said the Legislature can also do its part by breaking its bad budget habits. She said Arizona families have had to live on less, so the state government should do the same, by freezing, reducing spending and perhaps reforming.

"We need to send some propositions back to the voters," she said.

Martin said the state should take measures in the face of a slow economy. Any new course, he said, is better than the one the state's on right now.

"When you're in a hole, stop digging," he said.

By: Sean Dieterich, The Independent